

HUYA (HUYA US)

Moving into mild recovery in 2H23E

Huya delivered upbeat 4Q22 results (with in-line rev and better margin), but 1Q23E guidance muted on seasonality and epidemic (forecasting rev -13% QoQ). We suggest to look beyond soft 1Q23E, and expect livestreaming to resume positive growth in 2H23E (forecasting -5% YoY in FY23E), backed by: 1) a rebase after the regulatory change in livestreaming in June last year; 2) macro recovery after China's reopening; and 3) new blockbuster game launch. With continuous cost control and license rearrangement, we keep positive on its margin improvement ahead, forecasting its net loss to narrow to RMB146mn in FY23E and expect to turn profitability at group level in FY24E. We trimmed FY23E-24E rev by 1.2% to reflect slower livestreaming recovery (while margin barely changed), with TP adjusted to US\$6.9.

■ **4Q22 beat on margin.** User metrics were on track, in which MAU reached 85.5mn (+0.1% YoY) while paying users slightly -2% YoY to 5.5mn. Rev -25% YoY to RMB2.1bn, in line with consensus. Livestreaming -24.4% YoY, mainly on lower ARPPU amid epidemic impact. Ads and others -35.1% YoY, due to soft ads and lower content sublicensing rev. Non-GAAP GPM was -13.5% (vs. consensus of -14.2%), mainly attributable to optimized streamer-related costs and bandwidth costs, to offset increased content cost for e-sport related content. Non-GAAP NP recorded at -RMB440mn, above consensus of -RMB509mn, backed by better-than-feared GPM and opex control.

■ **Looking into 2H23E recovery with margin improvement.** Given soft seasonality and epidemic disruptions, we forecast 1Q23E rev -13% QoQ (vs. prior -10% QoQ). 1Q23E would achieve a breakeven, backed by higher GPM (up to 10%, on license rearrangement and disciplined rev-sharing costs). We expect livestreaming in 2H23E to resume positive growth, mainly on: 1) a rebase after the regulatory change; 2) macro recovery after reopening amid strong seasonality; and 3) new blockbuster game launch to boost user engagement. For the whole year, we expect FY23E rev -10% YoY, in which livestreaming rev -5% YoY (1H23E double digit decline; 2H23E single digit growth). With continuous cost control and license rearrangement, we keep positive on its margin improvement ahead, forecasting its net loss to narrow to RMB146mn in FY23E and expect to turn profitability at group level.

■ **Maintain BUY.** We trimmed FY23E-24E rev by 1.2% to reflect slower livestreaming recovery, while margin barely changed. Our new DCF-based TP was US\$6.9 (implying 1.4x FY23E P/S, still below average). The stock is trading below its net cash position, and we expect its rev resuming growth would help its re-rating ahead.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY 25E
Revenue (RMB mn)	11,351	9,220	8,327	8,722	9,051
YoY growth (%)	4.0	(18.8)	(9.7)	4.7	3.8
Adj. net income (RMB mn)	454	(282)	(146)	45	178
Adj. EPS (RMB)	1.88	(1.2)	(0.6)	0.18	0.70
YoY growth (%)	(64.5)	NA	NA	NA	298.6
Consensus EPS (RMB)	NA	NA	(0.4)	0.7	1.4
P/E (x)	12.1	NA	NA	127.3	32.5
P/S (x)	0.48	0.59	0.66	0.63	0.61
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	4.3	(2.6)	(1.4)	0.4	1.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **US\$6.9**
 (Previous TP **US\$7.6**)
 Up/Downside **+107.8%**
 Current Price **US\$3.32**

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Stock Data

Mkt Cap (US\$ mn)	939
Avg 3 mths t/o (US\$ mn)	10.14
52w High/Low (US\$)	6.50/1.64
Total Issued Shares (mn)	89

Source: Bloomberg

Shareholding Structure

Morgan Stanley	16.64%
Teachers Insurance & Annuity	9.38%
Asso of America	
ARK Investment	6.10%

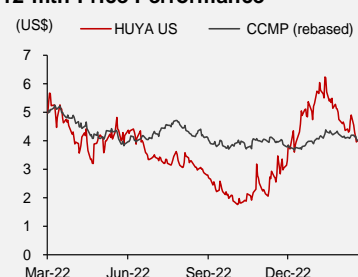
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-17.5%	-16.7%
3-mth	18.8%	7.3%
6-mth	40.0%	37.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Figure 1: 4Q22 financial review

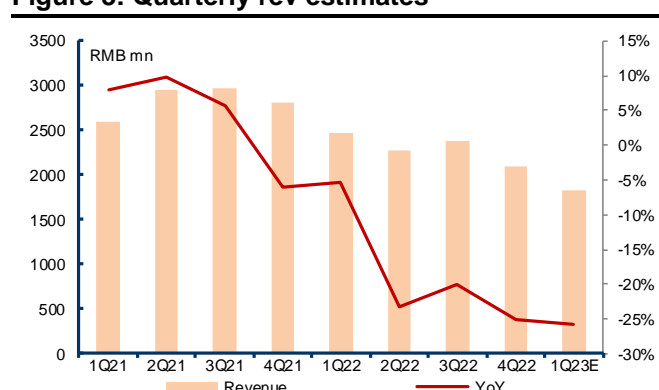
RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	2,605	2,962	2,976	2,809	2,465	2,275	2,379	2,102	-12%	-25%	2,096	0%	2,105	0%
Gross profit	514	581	504	1	334	219	342	(284)	NA	NA	(298)	NA	(302)	NA
Net profit	186	186	524	(313)	(3)	(19)	60	(524)	NA	NA	(561)	NA	(529)	NA
Adj. net profit	266	250	180	(241.7)	47	6	106	(440)	NA	NA	(509)	NA	(481)	NA
Adj. EPS (RMB)	1.10	1.04	0.75	(1.00)	0.19	0.02	0.44	(1.81)	NA	NA	(2.10)	NA	(1.96)	NA
Margin (%)														
Gross margin	19.7%	19.6%	16.9%	0.0%	13.5%	9.6%	14.4%	-13.5%			-14.2%		-14.3%	
Operating margin	9.3%	8.4%	5.2%	-13.8%	-0.1%	-2.5%	2.4%	-26.1%			-28.5%		-25.8%	
Adj. net margin	10.2%	8.4%	6.0%	-8.6%	1.9%	0.3%	4.5%	-20.9%			-24.3%		-22.9%	
Growth (%)														
Revenue (YoY)	8.0%	9.8%	5.7%	-6.1%	-5.4%	-23.2%	-20.1%	-25.2%			-25.4%		-25.1%	
Revenue (QoQ)	-12.9%	13.7%	0.4%	-5.6%	-12.3%	-7.7%	4.5%	-11.6%			-11.9%		-11.5%	
Gross profit	8.2%	1.1%	-18.8%	-99.8%	-35.1%	-62.3%	-32.1%	NA			NA		NA	
Adj. net profit	0.3%	-24.4%	-50.2%	NA	-82.5%	-97.7%	-41.1%	NA			NA		NA	

Source: Company data, Bloomberg, CMBIGM estimates

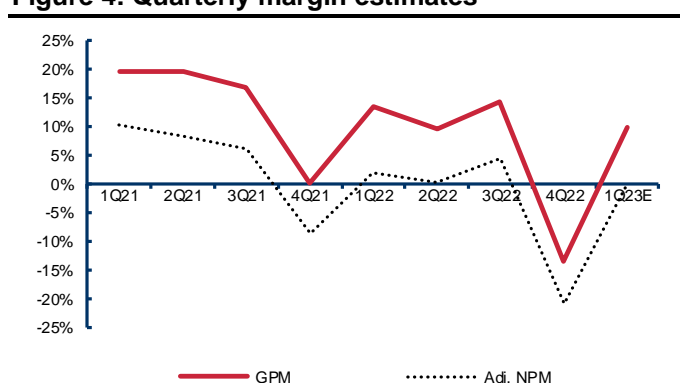
Figure 2: 4Q22 revenue breakdown

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	QoQ	YoY
Revenue (RMB mn)	2,605	2,962	2,976	2,809	2,465	2,275	2,379	2,102	-11.6%	-25.2%
Live broadcasting	2,392	2,579	2,602	2,613	2,152	2,052	2,017	1,975	-2.1%	-24.4%
Others	213	383	374	196	313	223	361	127	-64.8%	-35.1%

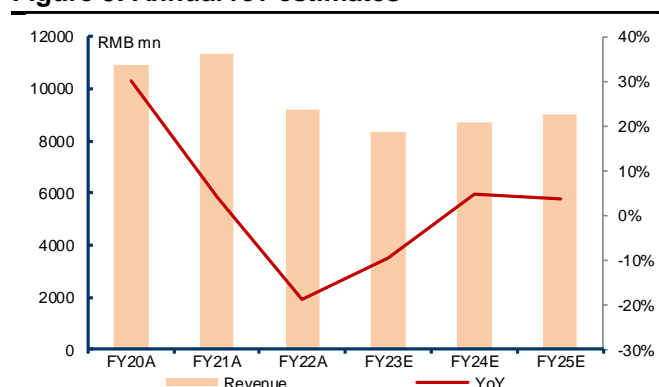
Source: Company data, CMBIGM estimates

Figure 3: Quarterly rev estimates

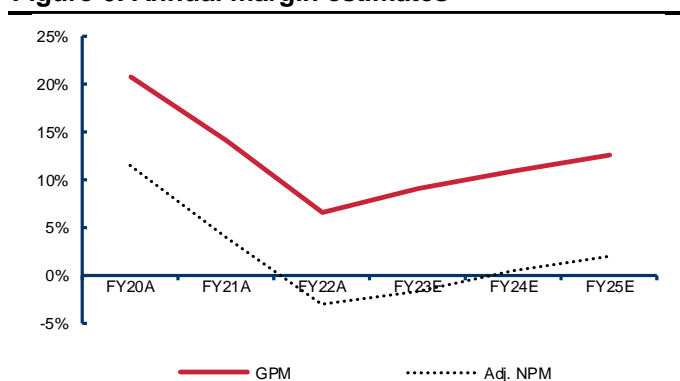
Source: Company data, CMBIGM estimates

Figure 4: Quarterly margin estimates

Source: Company data, CMBIGM estimates

Figure 5: Annual rev estimates

Source: Company data, CMBIGM estimates

Figure 6: Annual margin estimates

Source: Company data, CMBIGM estimates

We trimmed FY23E-24E rev by 1.2% to reflect slower livestreaming recovery with macro uncertainty. Livestreaming would see a single-digit decline in FY23E (forecasting -5% YoY), in our conservative estimates (assuming little contribution from new top games launched). We keep positive on Huya's margin improvement (backed by license rearrangement and potentially lower revenue sharing), and expect it to achieve a full-year breakeven in FY24E. Our DCF-based TP was correspondingly adjusted to US\$6.9, implying 1.4x FY23E P/S (below industrial average).

Figure 7: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	8,327	8,722	9,051	8,543	9,099	9,678	-2.5%	-4.1%	-6.5%
Gross profit	755	954	1,145	784	1,109	1,332	-3.8%	-14.0%	-14.0%
Operating profit	(365)	(152)	24	(423)	(150)	78	-13.6%	0.8%	-69.0%
Adj. net profit	(146)	45	178	(103)	144	260	41.0%	-69.1%	-31.6%
EPS (RMB)	(0.59)	0.18	0.70	(0.37)	0.72	1.38	61.0%	-75.3%	-49.2%
Gross margin	9.1%	10.9%	12.7%	9.2%	12.2%	13.8%	-0.1ppts	-1.3ppts	-1.1ppts
Operating margin	-4.4%	-1.7%	0.3%	-4.9%	-1.7%	0.8%	+0.6ppts	-0.1ppts	-0.5ppts
Net margin	-1.8%	0.5%	2.0%	-1.2%	1.6%	2.7%	-0.5ppts	-1.1ppts	-0.7ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 8: Earnings revision

RMB mn, Dec-YE	CMBIGM			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	8,327	8,722	9,051	8,429	8,831	NA	-1.2%	-1.2%	NA
Gross profit	755	954	1,145	754	972	NA	0.1%	-1.9%	NA
Operating profit	(365)	(152)	24	(384)	(157)	NA	NA	-3.3%	NA
Adj. net profit	(146)	45	178	(164)	41	NA	NA	9.6%	NA
EPS (RMB)	(0.59)	0.18	0.70	(0.67)	0.16	NA	NA	9.9%	NA
Gross margin	9.1%	10.9%	12.7%	8.9%	11.0%	NA	+0.1ppts	-0.1ppts	NA
Operating margin	-4.4%	-1.7%	0.3%	-4.6%	-1.8%	NA	+0.2ppts	+0.0ppts	NA
Net margin	-1.8%	0.5%	2.0%	-1.9%	0.5%	NA	+0.2ppts	+0.1ppts	NA

Source: Company data, CMBIGM estimates

Figure 9: DCF valuation

DCF valuation (RMB mn)										
	2023E	2024E	2025E	2026E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(365)	(152)	24	136	248	307	351	387	419	447
Tax	0	(8)	(31)	(45)	(58)	(62)	(65)	(66)	(71)	(76)
D&A	137	151	166	182	200	220	242	267	293	323
Working capital	(70)	12	16	11	(0)	1	2	(4)	(3)	(3)
CAPEX	(63)	(66)	(69)	(73)	(77)	(80)	(84)	(89)	(93)	(98)
FCF	(361)	(63)	105	211	314	386	447	496	545	593
FCF Growth	NA	NA	NA	102%	49%	23%	16%	11%	10%	9%
Terminal Value										5,434
PV (FCF+ Terminal Value)	(361)	(55)	80	142	184	198	201	195	188	1,818

Assumptions	
WACC	14.2%
Tax rate	20.0%
Risk free rate	3.6%
Cost of debt	0.0%
Beta	1.30
Market risk return	11.8%
Terminal growth rate	3.0%

Equity Value	
PV	2,590
minus: Net cash	(9,276)
minus: Minority Interest	0
Equity Value	11,866
Shares (mn)	248
Target Price (US\$) based on DCF	6.9

		WACC				
Growth	1.5%	12.2%	13.2%	14.2%	15.2%	16.2%
	2.0%	7.2	7.0	6.8	6.7	6.5
	2.5%	7.3	7.1	6.9	6.7	6.6
	3.0%	7.4	7.1	6.9	6.7	6.6
	3.5%	7.4	7.2	6.9	6.8	6.6
	4.0%	7.5	7.2	7.0	6.8	6.6
		4.5%	7.6	7.3	7.0	6.8
			7.7	7.4	7.1	6.9

Source: Company data, CMBIGM estimates

Figure 10: Peers valuation

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY23-25 EPS CAGR
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Huya	HUYA US	795	USD	3	BUY	6.9	NA	127.3	32.5	0.7	0.6	0.6	NA
Game													
Tencent	700 HK	414,021	HKD	339	BUY	450	20.0	17.1	18.2	5.2	4.6	4.1	21%
NetEase	NTES US	55,059	USD	84	BUY	116	16.2	14.5	13.1	3.6	3.3	3.0	11%
XD Inc.	2400 HK	1,399	HKD	23	NA	NA	NA	NA	28.1	2.9	2.2	1.7	NA
Average							18.1	15.8	19.8	3.9	3.4	3.0	16%
Livestreaming & VAS													
Momo	MOMO US	1,664	USD	8	HOLD	14	6.2	5.9	5.4	0.9	0.9	0.9	7%
YY	YY US	1,919	USD	27	BUY	50	11.3	9.4	7.9	0.8	0.7	0.6	22%
Bilibili	BILI US	8,649	USD	21	BUY	30	NA	NA	48.7	2.3	2.0	1.7	NA
Douyu	DOYU US	381	USD	1	NA	NA	NA	NA	25.1	0.4	0.4	0.4	147%
TME	TME US	12,922	USD	8	BUY	11	18.6	16.8	15.4	3.1	3.0	2.8	10%
Mango	300413 CH	9,658	CNY	36	NA	NA	27.2	23.3	17.8	4.7	4.1	3.6	23%
iQIYI	IQ US	6,618	USD	7	BUY	9	21.4	14.1	11.2	1.4	1.3	1.2	38%
Average							16.9	13.9	11.6	1.9	1.8	1.6	20%
Advertising													
Baidu	BIDU US	45,993	USD	133	BUY	196	14.0	12.2	10.9	2.3	2.1	1.9	35%
Weibo	WB US	3,811	USD	16	BUY	29	7.1	6.4	5.9	2.0	1.8	1.7	11%
Average							10.6	9.3	8.4	2.1	2.0	1.8	23%
Global entertainment													
Facebook	META US	512,694	USD	198	NA	NA	18.6	15.5	14.3	4.2	3.8	3.4	19%
Netflix	NFLX US	135,292	USD	304	NA	NA	24.6	20.0	16.5	3.9	3.5	3.2	21%
Snapchat	SNAP US	16,351	USD	10	NA	NA	NA	65.4	27.6	3.5	3.0	2.5	103%
Average							21.6	17.7	19.5	3.9	3.4	3.0	16%
Average							16.8	14.1	13.7	2.7	2.4	2.2	19%

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenues	11,351	9,220	8,327	8,722	9,051
Live broadcasting	10,186	8,196	7,782	8,122	8,404
Others	1,165	1,025	545	600	648
COGS	(9,751)	(8,610)	(7,572)	(7,768)	(7,906)
Gross profit	1,600	611	755	954	1,145
R&D	(819)	(680)	(655)	(641)	(631)
S&M	(760)	(483)	(462)	(484)	(527)
G&A	(327)	(320)	(302)	(294)	(287)
Other income	275	166	158	165	171
Operating profit	(30)	(706)	(506)	(300)	(129)
Fair value change	44	8	-	-	-
Interest income	247	298	220	205	185
Other income and expenses	(1)	(58)	-	(0)	-
Pre-tax Income	260	(458)	(287)	(95)	56
Income Tax	(55)	(28)	-	(8)	(31)
Net profit	583	(487)	(287)	(103)	24
Adj. net profit	454	(282)	(146)	45	178

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Net income	583	(487)	(287)	(103)	24
D&A	113	124	137	151	166
Change in WC	(160)	(312)	(70)	12	16
Others	(134)	149	142	149	154
Operating CF	403	(525)	(78)	208	359
Capex	(124)	(130)	(137)	(143)	(151)
Others	(2,377)	(666)	-	-	-
Investing CF	(2,501)	(796)	(137)	(143)	(151)
Issuance of preference shares	-	-	-	-	-
Issuance of common shares	-	-	-	-	-
Others	595	-	-	-	-
Financing CF	595	-	-	-	-
Net change in cash	(1,503)	(1,322)	(215)	65	209
Cash (beg of yr)	3,294	1,791	469	254	319
Fx effect	-	-	-	-	-
Cash (end of yr)	1,791	469	254	319	528

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	1,339	2,693	1,620	1,613	1,597
Property and equipment	80	201	186	167	142
Right-of-use assets	395	345	345	345	345
Intangible assets	84	58	72	85	94
Others	780	2,090	1,017	1,016	1,016
Current assets	11,916	10,454	10,045	10,113	10,325
Cash, and stricted cash	1,791	655	254	319	528
Accounts and notes receivables	88	76	69	72	75
Short-term deposits	8,352	9,018	9,018	9,018	9,018
Other current asset	1,686	704	704	704	704
Current liabilities	2,745	2,304	2,227	2,242	2,261
Accounts payables	13	23	20	20	21
Deferred revenue	460	446	432	419	404
Accruals	1,845	1,592	1,531	1,560	1,593
Others	427	243	243	243	243
Non-current liabilities	169	103	103	103	103
Lease liabilities	45	9	9	9	9
Deferred revenue	119	73	73	73	73
Deferred tax liabilities	5	21	21	21	21
Shareholders' equity	10,510	10,843	10,698	10,742	10,920

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Live broadcasting	89.7	88.9	93.5	93.1	92.8
Others	10.3	11.1	6.5	6.9	7.2
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	4.0	(18.8)	(9.7)	4.7	3.8
Gross profit	(29.4)	(61.8)	23.6	26.4	20.0
EBIT	NA	NA	NA	NA	NA
Adj. net profit	NA	NA	NA	NA	298.6
P&L ratios (%)					
Operating margin	(0.3)	(7.7)	(6.1)	(3.4)	(1.4)
Pre-tax margin	2.3	(5.0)	(3.4)	(1.1)	0.6
Adj. net margin	4.0	(3.1)	(1.8)	0.5	2.0
Effective tax rate	(21.3)	6.1	0.0	8.4	(56.2)
Returns (%)					
ROE	4.3	(2.6)	(1.4)	0.4	1.6
ROA	3.4	(2.1)	(1.2)	0.4	1.5
Per share					
EPS (RMB)	1.9	(1.2)	(0.6)	0.2	0.7
DPS (RMB)	-	-	-	-	-
BVPS (RMB)	43.5	44.9	43.6	43.1	43.1

Source: Company data, CMBIGM estimates

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